

Wal-Mart Bank
Community Reinvestment Plan
March 30, 2006

I. Introduction

This document discusses the commitment and capacity of the Wal-Mart Bank (the "Bank") to address community development and implement the Community Reinvestment Act ("CRA"). The Bank will seek designation as a "wholesale bank," pursuant to 12 C.F.R. § 345.25(b), because the Bank will primarily be engaged in back office banking activity to sponsor and settle payment transactions generated by the Bank's parent, Wal-Mart Stores, Inc. ("Wal-Mart"). It will not offer products to the general public and will not have a retail banking office. Wal-Mart Bank will be a wholly-owned subsidiary of Wal-Mart Stores, Inc., and the Bank's own substantial CRA commitments as discussed below will extend Wal-Mart's own long and deep tradition of community support and services, evidenced in the extensive qualifying activities of the Wal-Mart Financial Services Division ("WFS") and the Wal-Mart and SAM'S CLUB Foundation (the "Foundation").

The Bank CRA Plan includes grants and investments in qualifying organizations in Salt Lake County and Utah primarily. In view of the concentration of investment activity by existing Utah industrial banks and other financial institutions in the Utah community, the Bank may also make qualifying investments in other parts of the country. Under the general direction of the Bank's President-designate, who has extensive experience in CRA activities in positions with other banks, and its CRA Officer, the Bank and its personnel will implement a significant commitment to qualifying community services activities in Salt Lake County and throughout the State of Utah. These commitments are integral to the Bank's activities and operations, and its goal is for its own activities to qualify the Bank for an "outstanding" rating at its first examination and in all subsequent ones. That is the Wal-Mart way.

Approximately 15% to 20% of Wal-Mart's customers would be considered as having a low- or moderate-income level and are either underserved by existing depository institutions or entirely unbanked; over 300 Wal-Mart stores are located in low- and moderate-income communities. For a number of years, WFS has had a specific purpose to develop and offer financial services that meet the needs of these customers and has entered into relationships with third-parties to provide low-cost and convenient money services. WFS developed these strategies because they are good for Wal-Mart customers, not because of any CRA obligation. That is how Wal-Mart does business every day. The Bank's community commitment is thus a further important example of its parent organization's community commitment.

Wal-Mart Stores, Inc. also has a long tradition and corporate culture of actively supporting the communities in which it is located throughout the country through local volunteer efforts and cash donations made by Wal-Mart and the Wal-Mart and SAM'S CLUB Foundation. The Bank will work with the Foundation and with the Wal-Mart Stores in Utah, and their associates (employees), to further the goals of CRA. These affiliate activities will augment the separate and significant CRA commitment and activities of the Bank itself. For additional information on the

fiscal ramifications of establishing a Wal-Mart retail location in a community, an independent study titled "The Economic Impact of Wal-Mart" completed in November 2005 by Global Insight is included as Exhibit A.

The Bank's Community Development Activities

Wal-Mart Bank should meet the definition of a "wholesale bank" designation for CRA evaluations because it will not be "in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers" as outlined in 12 C.F.R. § 345.12(x). The following factors evidence the wholesale nature of the Bank's intended business:

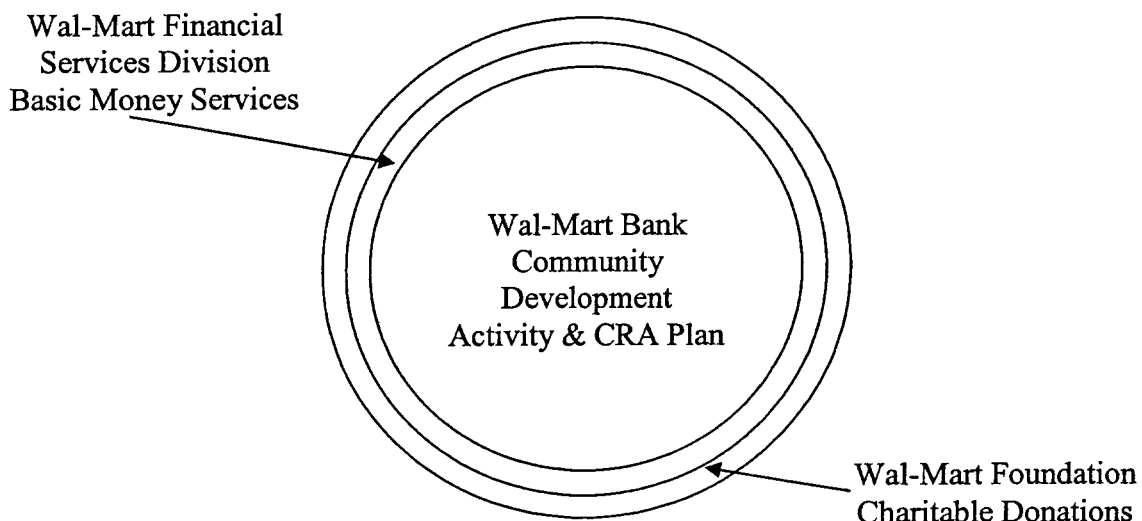
- The Bank will not hold itself out to the general public as providing home mortgage, small business, small farm or consumer loans to retail customers.
- The Bank will not be serving retail walk-in traffic in its office located on the 6th floor of a commercial office building in downtown Salt Lake City or have any retail branches, tellers or drive-up windows.
- The Bank will have no pedestrian signs or advertisements inviting retail customers to its office.
- The doors of the Bank will remain locked during business hours for security purposes and no cash or negotiable instruments will be on site.

As discussed further below, the Bank intends to make significant grants and investments and engage in community service activities in Salt Lake County and Utah. Whenever possible, it will seek opportunities to do so through complex or innovative initiatives. To the extent that appropriate investment opportunities are not available in its assessment area, it will seek out such opportunities in other areas. Although the Bank's services will be predominantly sponsorship of payments-related activities for Wal-Mart, the Bank will directly offer certificates of deposit to qualified non-profit organizations designated as 501(c)(3) entities by the Internal Revenue Service located throughout the country. By offering above market rates on certificates of deposit (anticipated to be 10 or more basis points above market for similar instruments) or lower than market rate minimum account thresholds, these accounts will indirectly support community activities.

The President-designate of Wal-Mart Bank has many years of in-depth experience successfully administering CRA programs in the Bank's proposed Assessment Area. He now serves, and expects to continue to serve when Bank President, on the Executive Committee and Board of Directors for two non-profit organizations (Utah Non Profit Housing Corporation and Artspace of Utah, Inc.) that provide affordable housing to residents of Salt Lake County. Because of his leadership, knowledge and experience from involvement with these and other non-profit organizations, he has valuable insight regarding the Salt Lake area community that will be beneficial in identifying leadership and innovative community development opportunities the Bank may pursue, in keeping with the limited business focus of the Bank.

The VP, Operations Officer, a senior officer of the Bank, will be designated the Bank's CRA Officer. The proposed CRA Officer also has previous experience in meeting the needs of low- to moderate-income communities through work experience in the senior positions held at various financial institutions. The CRA Officer will be responsible for establishing and maintaining a meaningful CRA program that will be designed in conjunction with, and approved by, the Bank's Board of Directors. The CRA program will identify the community development needs of the Bank's proposed CRA Assessment Area (as outlined in Section II(a), below). Quarterly reports on CRA performance will be discussed with, and monitored by, the Bank's Board of Directors.

As illustrated in the diagram below, Wal-Mart Bank's community development activity is the center of its CRA plan. Additionally, the Bank will encourage the community development activity of its affiliates to be consistent with the objectives of the Community Reinvestment Act. Indeed, as described on the following pages, the Bank's own substantial CRA commitment and plans for community service leadership are further examples of Wal-Mart's longstanding commitment to serve the same families and areas at which CRA is directed.



Affiliate Community Development and Charitable Activities

Wal-Mart Financial Services. WFS is responsible for implementing non-banking partnered financial services for Wal-Mart's customers with the primary focus on products for unbanked and underserved individuals. WFS has advanced this purpose by arranging for Wal-Mart stores to offer basic money order, money transfer and payroll check cashing services through unaffiliated third parties. These services specifically fall under the CRA definition of "Community Development Services," which encompass providing "financial services to low- and moderate-income individuals" including "providing international remittances services that increase access to financial services by low- and moderate-income persons."

Wal-Mart Financial Services facilitates offering basic money services to 1 to 2 million customers per week resulting in hundreds of millions of dollars in savings each year to the unbanked and underserved customers.

Wal-Mart Financial Services has designed a check cashing product at a reasonable cost through Certegy (now part of Fidelity National Information Services, Inc., a subsidiary of Fidelity National Financial, Inc.). The cost of this service is significantly lower than traditional check cashing costs for consumers (\$3.00 at Wal-Mart versus an average of \$6.00 at non-Wal-Mart locations). This product primarily serves low- and moderate-income individuals and has received wide acceptance.

Wal-Mart Financial Services Division has partnered with MoneyGram to sell reasonably priced money orders (\$0.46 each at Wal-Mart versus an industry average of \$0.75). The product has also received wide acceptance and, combined with the demographic information about the average customer of Wal-Mart, provides financial services to low- and moderate-income individuals.

Additionally, an international money transfer product was designed in conjunction with MoneyGram and offered to individuals at all Wal-Mart Store locations. This product is reasonably priced (\$9.46 at Wal-Mart versus an average of \$15.00 at non-Wal-Mart locations). This is another partnered product arranged by Wal-Mart Financial Services that provides affordable products to low- and moderate-income individuals.

Finally, Wal-Mart Financial Services has partnered with GE to offer a Community Card to qualified non-profit charitable and educational organizations designated as 501(c)(3) entities by the Internal Revenue Service. This program supports credit availability to approximately 43,000 501(c)(3) organizations.

Each of the Wal-Mart Financial Service Division products advances the community development service objectives of the Community Reinvestment Act by providing reasonably priced financial products to low- and moderate-income persons, including many who are underserved by existing institutions or entirely unbanked.

Finally, it must be noted that over 330 Wal-Mart retail stores are located in low- and moderate-income geographies throughout the country. These stores not only provide the basic money services described above, but also employment opportunities and improved access to essential goods and services for families in these neighborhoods.

The Foundation. The Wal-Mart Foundation is a not-for-profit organization dedicated to giving and doing whatever Wal-Mart can to help improve the quality of life for customers and their communities, address environmental issues and promote education. The amount of donations exceeded \$170 million during the fiscal year ending January 31, 2005, and nearly \$200 million for the fiscal year ending January 31, 2006. Wal-Mart and the Foundation's donations in Utah for the fiscal year ending January 31, 2005 totaled approximately \$1.7 million, and \$2.3 million for the fiscal year ending January 31, 2006. These donations supported communities and local non-profit organizations.

Of the nearly \$200 million donated during 2005, more than 90% of those contributions were made to organizations at the local level. These decisions are made at the local level, based on recommendations from associates (employees) and the perceived needs of the community. In the wake of Hurricanes Katrina and Rita, Wal-Mart donated more than \$18 million in cash and more than \$3 million in merchandise to relief efforts. An example of just one of the many programs receiving support from Wal-Mart Stores that specifically address the needs of low- and moderate-income individuals is America's Second Harvest. Currently there are roughly 38 million people in America that are at risk of going without food. By educating, feeding and advocating for public policies America's Second Harvest-The Nation's Food Bank Network is helping to feed individuals and strengthen communities by supporting feeding programs nationwide.

Founded in 1979, the America's Second Harvest Network now feeds more than 25 million people each year in all 50 states, the District of Columbia and Puerto Rico. Through a Network of more than 200 food banks and Food Rescue Organizations, nearly 2 billion pounds of food are secured and distributed yearly. An America's Second Harvest Network Member serves nearly every county in the U.S. making it the largest charitable hunger relief organization in the nation.

Wal-Mart recognizes that hunger is a serious issue that has a lasting impact not only on children and elderly, but also on our entire nation. Presently, Wal-Mart and SAM'S CLUBs have initiated an effort to raise funds from its customers in support of America's Second Harvest. In addition, Wal-Mart and SAM'S CLUB have committed to match the first \$5 million raised in their stores and clubs across the nation. The corporate goal is to raise and contribute over \$10 million. This activity clearly demonstrates the corporate philosophy of supporting community in tangible, meaningful ways.

Many of the community development programs supported by Wal-Mart Stores are outlined in the brochure titled "Wal-Mart Supporting Our Communities: Helping Make a Difference" included as Exhibit B. The Charitable Giving Summary for 2005 is in Exhibit C and is titled "Charitable Giving, Wal-Mart Good for America's Communities." These activities augment, but do not replace, the Bank's CRA community development responsibilities and initiatives.

II. Responses to CRA Section of the Interagency Application Form

a. Identification of the Bank's Assessment Area

As a "wholesale bank," Wal-Mart Bank is required under 12 C.F.R. § 345.41(b) to identify an assessment area and has designated Salt Lake County as its CRA Assessment Area. This designation is appropriate because the Bank's main (and only) office will be located in Salt Lake City, located within Salt Lake County, and the Bank has no plans for any branches or deposit-taking retail service facilities in or outside of Salt Lake County. The existing boundaries of the County are a reasonable approximation of Wal-Mart's local community and this CRA Assessment Area designation does not arbitrarily exclude any low- or moderate-income areas. A map of the proposed Assessment Area is included as Exhibit D.

b. Summary of the Performance Context for CRA Evaluations

Salt Lake County, the Bank's designated CRA Assessment Area is part of the Salt Lake City-Ogden Metropolitan Statistical Area ("MSA"). Median income levels and other pertinent statistics are provided in the following two tables. Table 1 identifies the Department of Housing and Urban Development ("HUD") estimated 2005 income levels of households in the Salt Lake City Metropolitan Statistical Area (Salt Lake, Summit and Tooele Counties). As indicated on Table 1, low- and moderate-income households in Salt Lake County have an income level of \$49,239 or less.

Table 1

HUD 2005 Income estimates: Salt Lake MSA		
Low Income	Less than 50% of Median Family Income	Up to \$30,774
Moderate Income	At least 50%, but less than 80% of Median Family Income	\$30,775 to \$49,239
Middle Income	At least 80%, but less than 120% of Median Family Income	\$49,240 to \$73,859
Upper Income	At least 120% or more of Median Family Income	\$73,860 or more
HUD 2005 estimated Median Family Income		\$61,550

Table 2 identifies the Salt Lake County Census Tract Characteristics by income level. Approximately 25% of Salt Lake County's population resides in low- or moderate-income census tracts.

Table 2

Salt Lake County Census Tract Characteristics				
Census Tract Income Level	Number of Tracts	%	Population	%
Low Income Tracts	5	2.6%	7,627	0.8%
Moderate Income Tracts	43	22.3%	211,552	23.5%
Middle Income Tracts	90	46.6%	438,603	48.8%
Upper Income Tracts	55	28.5%	240,605	26.8%
Total Salt Lake County Tracts	193	100.0%	898,387	100.0%

Major employers in Salt Lake County include the University of Utah, Intermountain Health Care, the State of Utah, the Granite and Jordan School Districts, Salt Lake County, Novus Services, Delta Airlines and the Salt Lake City School District.

Additional information about the economic and related factors for Salt Lake County are included in the documents: Housing Authority of the County of Salt Lake – Annual Report 2004-2005; Salt Lake City 2005-2010 Consolidated Plan: A Needs Assessment and Strategic Plan for Housing and Community Development Programs; and Utah Department of Community and Economic Development – Annual Report 2004. These documents are attached as Exhibits E, F and G.

c. Summary of the Credit Needs of the Assessment Area

Salt Lake County contains Utah's largest city (Salt Lake City) and other cities of significant size. The 2000 U.S. Census Bureau information identified a total population of slightly more than 898,000 residing in Salt Lake County. Table 2 above indicates that more than 219,000 reside in low- or moderate-income neighborhoods. Economic characteristics from the 2000 U.S. Census identified more than 12,300 families and 70,700 individuals below the poverty level that reside in Salt Lake County. Wal-Mart Bank will not offer credit products and, therefore, will need to address the Assessment Area community development objectives of CRA through its investment and service strategies.

d. CRA Evaluation Test to be used for CRA Evaluations

With the CRA designation as a "wholesale bank," Wal-Mart Bank will be evaluated on its record of helping to meet the credit needs of the Bank's Assessment Area under the community development test through its community development investments and services, consistent with the performance criteria established in 12 C.F.R. § 345.25. This performance evaluation includes the Bank's use of innovative or complex qualified investments or services and the Bank's responsiveness to the community development needs of its Assessment Area.

e. Programs, Products and Activities that will help meet existing or anticipated needs of the Bank's Assessment Area, including the needs of low- and moderate-income geographies and individuals.

Wal-Mart Bank's strong commitment to CRA will be demonstrated both in grants and investments and in community service. This Plan reflects the fact that the Bank has a strong and experienced management team and will have the capacity to implement and sustain a successful and beneficial community development activity through its CRA program. The Bank's President-designate has been directly involved in directing and implementing CRA programs at other institutions for over 12 years and these institutions have achieved satisfactory or outstanding CRA public evaluation ratings for every evaluation during that time. This demonstrated knowledge and expertise will provide significant assistance as the Bank and its Board of Directors implement its CRA program.

In addition to his role and experience, the VP, Operations Officer, another senior officer of the Bank, will be a designated CRA Officer and will be tasked with implementing and coordinating the Bank's grant, support, investment and community service activities. To date at Wal-Mart, this officer has coordinated the distribution of the FDIC's Money Smart materials to the 1,300,000 employees of Wal-Mart Stores, Inc. The proposed CRA Officer also has previous experience in meeting the needs of low- to moderate-income communities through work experience in senior positions held at various financial institutions. As a community bank retail banker, he worked to develop community outreach and community service plans. These plans primarily focused on strategies for meeting the needs of the communities in designated MSA markets. For example, he implemented a pilot program for the America Saves Program¹ in 60 locations in Florida and Georgia through the distribution of program brochures and direct marketing initiatives. These efforts resulted in over 400 New Savers enrolled in the America Saves Program during a three month period.

The Bank's operating budget includes a significant amount for grants and support to qualifying organizations. With capitalization of \$125 million, the Bank will make investments in CRA qualifying bonds and other instruments at a leadership level, commensurate with its size and capacity. To the extent that appropriate qualifying investments are not available in or through Salt Lake County or Utah organizations, the Bank will consider making qualifying investments in other parts of the country. In keeping with its leadership, experience and capacity, the Bank will give priority to investment opportunities that will qualify as "complex or innovative."

The Bank's President-designate currently serves on the Executive Committee and Board of Directors of the following organizations, positions that he will continue upon becoming President of the Bank:

Utah Non Profit Housing Corporation ("UNPHC"). Founded in 1967, Utah Non Profit Housing Corporation is Utah's largest non-profit developer of affordable multi-family housing. It is a 501(c)(3) organization and a designated Community Housing Development Organization (CHDO). UNPHC has developed 33 Family, Senior and Special Needs properties, providing 1354 affordable housing units for individuals, the majority of whom earn less than 50% of the area median income. Involvement with this organization provides opportunities to assist in raising funds for housing projects targeting low- and moderate-income individuals and to influence the development and location of affordable housing projects within the Bank's proposed Assessment Area.

Artspace of Utah, Inc. Artspace is a 501(c)(3) not-for-profit community development organization founded in 1980 and working to revitalize neighborhoods by creating mixed-use projects that incorporate affordable housing, cultural amenities, and commercial spaces. Artspace projects are catalysts for revitalizing the neighborhood and spurring further development. Artspace projects contribute to the arts and culture of the community by providing affordable artist studios and galleries. The projects also create synergy between the artists, non-profit agencies and residents living and working here.

¹ America Saves encourages and assists individuals to save and build wealth. See www.Americasaves.org.

This organization directly operates and develops affordable housing projects in the downtown area of Salt Lake City and has been a catalyst in revitalizing Salt Lake City's west side. Artspace has funded its affordable housing projects utilizing bonds, low-income, new markets and historical tax credits as well as debt financing. Involvement with this organization provides community development service as well as potential opportunity to invest in future projects.

It is anticipated this experience will provide tangible assistance in working with other organizations to collaborate in developing or participating in meaningful community development initiatives. Relationships with other key community development organizations will be actively pursued. Among the organizations for such additional relationships are the following:

Utah Housing Corporation ("UHC"). UHC is a self-supporting, public corporation that finances, develops, and preserves affordable housing opportunities for low- and moderate-income households throughout the state of Utah. UHC is the most significant financial institution in the state providing resources for affordable housing. Principally, UHC provides mortgage monies to qualifying first time homebuyers as well as resources to developers building or renovating affordable apartment projects. In addition, UHC assumes several roles ranging from financier to developer in creating some of the more difficult to develop housing niches. UHC Bonds are issued to fund many of these initiatives. Investing in these bonds permits the development and funding of affordable housing for low- and moderate-income individuals through a reasonably safe and sound investment vehicle.

Pete Suazo Business Center. This Center was founded in the Fall of 2002 as a not-for-profit organization focused on aiding underserved entrepreneurs. The Center is dedicated to following the ideals of its namesake, the late State Senator Pete Suazo, who was known for championing the cause of Utah's Latino/Hispanic population. The Center has a two-pronged mission in its effort to serve Utah's Hispanic and other underserved population: provide education on what is needed to start and run a successful business in the United States; and serve as an access point for organizations, institutions, and other existing entities that wish to offer their services to the underserved community in this area. These services include business management counseling, business plan development, marketing, and business loan services. Wal-Mart Bank will focus on partnering with the Pete Suazo Business Center to specifically address the needs of the low- and moderate-income segments of the Center's target population.

UTFC Financing Solutions, LLC ("UTFC"). The UTFC is a licensed Small Business Investment Company (SBIC) in Salt Lake City, Utah, investing in small companies throughout the region by providing subordinated debt to start-up and growing businesses. It is focused on information technology but invests in a wide range of companies from manufacturing to services. Participation in the investment pools of the UTFC supports community development through job creation.

The Utah Microenterprise Loan Fund ("UMLF"). The UMLF is a private, non-profit, multi-bank community development financial institution (CDFI), whose mission is to

provide financing and management support to entrepreneurs in start-up and existing firms that do not have access to traditional funding sources – in particular, those who are socially and economically disadvantaged. The UMLF depends on collaborative support from Utah financial institutions to provide funding for its programs and operating expenses. Affiliation with this organization provides opportunities to educate low- and moderate-income individuals as well as investment opportunities.

Utah Community Reinvestment Corporation (“UCRC”). The UCRC is a statewide non-profit organization that operates lending programs for affordable quality housing. Its mission is to foster the development of quality housing by providing flexible financing for multifamily, rental projects that serve lower income Utah residents. The UCRC works with government agencies to maximize leverage of public and private dollars, as well as provides technical assistance to project sponsors developing affordable housing projects. Participation and support of this organization expands affordable housing units in Utah.

The Bank will also pursue other local CRA-qualified community involvement, consistent with objectives established and currently implemented by its parent company. The Bank’s Board will be asked to establish benchmark community service participation levels for all Bank employees (associates) and an overall target goal of community service hours for the bank as a whole. Associates will be encouraged to be directly involved in the community’s non-profit organizations and projects, schools, religious organizations, government agencies and civic and veteran groups. The Bank will specifically seek to address the needs of the unbanked and underserved residents of the community utilizing the financial educational modules developed by Wal-Mart such as: “Creating a Solid Financial Foundation,” “Understanding My Credit Report,” “Using My Credit Wisely” and “Owning a Home” in addition to many other modules that address basic money management.

The Bank is also committed to facilitating the delivery of the FDIC Money Smart Program to local residents by leveraging the Wal-Mart store locations to distribute educational materials.

As outlined above, Wal-Mart’s own commitment to serving low- and moderate-income families and communities is well-established and extensive. The bank will actively work to further leverage existing affiliate programs and to collaborate with affiliates on new efforts. In addition to the Bank’s CRA efforts discussed above, we will note other existing community development involvement that combines both financial and volunteer support to strengthen the fabric of the communities in which it operates. Examples of this approach include collaborations with:

- GE Consumer Finance (Monogram Credit Card Bank of Georgia) and TransUnion to help people understand credit, gain access to credit and to provide tips to maintain a healthy credit rating; and
- The Consumer Federation of America on programs such as “America Saves” to help people learn how to save money to improve their short and long-term financial positions.

III. Conclusion

Wal-Mart Bank considers the foregoing to be an initial outline of its commitment and plans to implement its CRA responsibility for community development as a designated "wholesale bank." The Bank is committed to engaging in CRA activities that will assist in meeting the credit needs of its proposed Assessment Area, and to the extent that appropriate investment opportunities are not presented within its Assessment Area, in other areas of Utah or the country. Utilizing the CRA experience of management, its own resources, and the resources available through affiliates, the Bank will fulfill its CRA responsibilities. Wal-Mart Bank recognizes that performance, not promises, is the key, but believes that the experience, commitment and knowledge of its community embodied in this Plan demonstrate its capability and will to perform successfully in carrying out its CRA commitment.

EXHIBIT A: November 1, 2005 Global Insight, "The Economic Impact of Wal-Mart"

EXHIBIT B: Wal-Mart Foundation brochure – "Wal-Mart Supporting Our Communities: Helping Make a Difference"

EXHIBIT C: Charitable Giving Summary 2005 – "Charitable Giving, Wal-Mart Good for America's Communities"

EXHIBIT D: Map of Salt Lake County

EXHIBIT E: Housing Authority of the County of Salt Lake – Annual Report 2004-2005

EXHIBIT F: Salt Lake City 2005-2010 Consolidated Plan: A Needs Assessment and Strategic Plan for Housing and Community Development Programs

EXHIBIT G: Annual Report 2004 – Utah Department of Community and Economic Development

EXHIBIT H: Draft Wal-Mart Bank Community Reinvestment Act Notice

EXHIBIT A

**Global Insight
The Economic Impact of Wal-Mart**



THE POWER OF PERSPECTIVE

The Economic Impact of Wal-Mart

Executive Summary

PREPARED BY:

Business Planning Solutions
Global Insight Advisory Services Division

November 1, 2005

I. EXECUTIVE SUMMARY

Abstract

Global Insight analyzed a set of data provided by Wal-Mart concerning its sales, purchases, employment, and payroll to answer two questions. The first was "How would the economies of the U.S. and Dallas-Ft. Worth have been different in 2004 if Wal-Mart had not existed?" The second was "How has the level and composition of retail employment at the county level typically been affected by the entry and expansion of Wal-Mart stores and Supercenters?"

Previous studies have shown that Wal-Mart has contributed to lower consumer prices. Global Insight conducted a statistical analysis that supports these findings. We found that the expansion of Wal-Mart over the 1985-2004 period can be associated with a cumulative decline of 9.1% in food-at-home prices, a 4.2% decline in commodities (goods) prices, and a 3.1% decline in overall consumer prices as measured by the Consumer Price Index - All Items, which includes both goods and services. These estimates are in line with other researchers' estimates of Wal-Mart's price effects. This impact amounts to consumer savings of \$263 billion by 2004, which is the equivalent of \$895 per person or \$ 2,329 per household. These results are based on empirically derived estimates from the CPI as it is measured by the Bureau of Labor Statistics and do not include any additional cost savings that might come from capturing the effects of measurement bias in the CPI itself.

These savings have been generated through Wal-Mart's higher levels of capital investment in distribution and inventory control assets, lower import prices, and greater efficiency in its whole supply chain.

We did not conduct a thorough, comparative analysis of Wal-Mart's wages, benefits, and working conditions relative to a fair and comparable benchmark. The limited analysis we did undertake, based on an analysis of a large sample of employee wage data, did not find evidence to conclude that Wal-Mart pays its workers below-market wages.

A full accounting of Wal-Mart's impact using Global Insight's modeling framework finds that Wal-Mart has generated a positive net economic impact on the U.S. economy. By 2004, it is responsible for 210,000 net jobs, a level of total factor productivity (general economic efficiency of the economy) that is 0.75% higher by 2004 than it would have been. Nominal wages are 2.2% lower, but given that consumer prices are 3.1% lower, real disposable income is 0.9% higher than it would have been in a world without Wal-Mart.

To acknowledge those who argue that Wal-Mart has led to real wage compression in the U.S. economy, we conducted analysis to determine how sensitive our results were to our assumption that there has been no real wage compression. We showed that assuming wage compression rather than total factor productivity growth is behind the

price decline. Furthermore, the impact on total real disposable income is still significant and positive.

Similar results are provided for the Dallas-Ft. Worth-Arlington MSA. Due to increased market penetration the consumer cost savings are estimated to have been a cumulative 4.0% by 2004. This impact in conjunction with other direct, indirect, and induced impacts has led to 6,300 more jobs and a 2.6% increase in real disposable income in the Dallas-Ft. Worth area.

In an analysis of county-level impact results, Global Insight has largely confirmed previous research on how the entry and expansion of Wal-Mart affects the structure of county-level retail employment. With the opening of a typical 150-350 person store in a county, retail employment tends to increase by 137 jobs over the short term and levels off to a 97 job increase over the longer term. It also leads to net job declines in food stores and apparel & accessory stores, but to net job increases in building materials & garden supplies stores and general merchandise stores. This indicates that Wal-Mart seems to displace other retail establishments, but also serves to stimulate the overall development of the retail sector that leads to an overall positive impact (in terms of retail employment) for the counties in which Wal-Mart has expanded.

Study Background

An active debate has built up around the issue of Wal-Mart's impact on the United States. This debate has been taking place on a range of issues at the national, state, county, metro area, and neighborhood levels. With an objective of making a positive contribution to this debate, Wal-Mart commissioned Global Insight to undertake an independent assessment of Wal-Mart's economic impact on the U.S. economy.

This analysis has taken advantage of Global Insight's core strengths:

- Global Insight's 42-years of experience¹ in providing rigorous, fact-based forecasts and analyses of the U.S. economy at the national, state, metro area, and county levels.
- Global Insight's reputation for providing independent, objective analyses on the economic impact of a wide variety of policies and economic forces, across a broad range of industries in the United States as well as many other countries.
- Global Insight's set of national, state, and metro area-level models provide an independent framework for taking into account the many interrelationships in today's complex economy in order to depict a comprehensive assessment of net economic benefits.

¹ Through its precursor companies Data Resources, Inc. (DRI) and Wharton Econometric Forecasting Associates (WEFA). WEFA was founded in 1963 and DRI was founded in 1968 both on the basis of deploying large scale databases with econometric forecasting models to understand and forecast economic performance. These two companies were joined to form Global Insight in May 2001.

Global Insight began the project by requesting and receiving a large set of detailed data from Wal-Mart concerning its sales and employment at Wal-Mart stores and Wal-Mart Supercenters going back to the mid-1980s.² Global Insight also received detailed data on Wal-Mart's purchases from its suppliers in 2004, as well as a sample of employee wage data by store and job category that was taken in October 2004. In addition, we interviewed a variety of Wal-Mart staff to gain a deeper understanding of Wal-Mart's view on how they actually decide where to open new stores, how they set prices, how they hire workers, and how they decide how much pay to offer them. This information was then further supplemented by a thorough review of all existing studies and analyses concerning Wal-Mart's economic impact.

Our study is structured to determine the net economic impact of Wal-Mart at the national, metropolitan, and county levels. The structure of the analysis is as follows:

- A national impact analysis to estimate the overall impact of Wal-Mart as measured by commonly used measures of national economic performance.
- A metropolitan-level impact analysis to characterize how the impact could be measured in a specific metropolitan statistical area (MSA), Dallas-Fort Worth, and to serve as an example for how Wal-Mart's economic impact should be estimated in other cities.
- A county-level impact analysis to look at the specific dynamics associated with the impact of Wal-Mart's entry and expansion at the local (county) level.

National Impact Results

Global Insight has found evidence that Wal-Mart has directly raised the economy's potential to produce by investing in more capital, by using all its factors of production more efficiently, and by helping suppliers operate more efficiently. The higher supply potential raises productivity, lowers consumer prices, and increases real consumer purchasing power.

Previous studies have shown that Wal-Mart has contributed to lower consumer prices. Global Insight conducted a statistical analysis that supports these findings. We found that the expansion of Wal-Mart over the 1985-2004 period can be associated with a cumulative decline of 9.1% in food-at-home prices, a 4.2% decline in commodities (goods) prices, and a 3.1% decline in overall consumer prices as measured by the Consumer Price Index - All Items, which includes both goods and services. These estimates are in line with other researchers' estimates of Wal-Mart's price effects (see Tables 19 and 20 in Appendix A).

The 3.1% estimate is a cumulative total over the 1985-2004 period and corresponds to a 0.1-0.2% reduction in the annual inflation rate over this period. These results were generated through a statistical analysis of the variation in consumer prices across a set

² Sam's Club sales and employment as well as employment at distribution centers, transportation and miscellaneous operations were not covered in this analysis.

of metropolitan statistical areas (MSAs) over time in relation to changes in Wal-Mart's market penetration and other (non-Wal-Mart) drivers of price variation. Jerry Hausman of M.I.T. has presented an analysis that the official CPI actually incorporates a bias that excludes some of Wal-Mart's direct cost savings.³ Global Insight's analysis only focused on the CPI "as measured" and did not add any additional cost savings that might be generated by this hypothesized measurement bias.

The reduction in the price level due to the presence of Wal-Mart translates directly into savings for consumers amounting to \$263 billion by 2004, which amounts to \$895 per person and \$2,329 per household.

Once Global Insight established this benefit to the economy we needed to understand how these cost savings were generated. These savings could have come from either lower wages, increased capital investment, lower import prices, or greater total factor productivity.

- **Wal-Mart does not appear to be paying below-market wages.** In impact studies of this nature, it is important to acknowledge that even if there are broad positive net benefits identified, there can be specific segments of the population that lose out. Many external observers have held that the cost of Wal-Mart's success in offering lower prices has come at the expense of its workers. Coming to a comprehensive position on this issue is beyond the scope of this study. It would require a thorough, comparative analysis of Wal-Mart's wages, working conditions, and benefits relative to a fair and comparable benchmark. However, for the purposes of this study, we did analyze a large sample of employee wage data provided to us, broken down by job position and store. We selected a sample set of job positions from this data that we were able to validly compare to standard Bureau of Labor Statistics (BLS) employment occupational categories. We analyzed the data to make them as comparable as possible, and the methodology we used is fully documented in the body of the report. The results indicate that there is no evidence that Wal-Mart significantly pays lower than the retail industry averages for the job positions that we analyzed. In fact, the analysis shows the weighted average Wal-Mart wage rate for the group of job positions we sampled is actually modestly higher than the comparable weighted average BLS wage rate. For a number of reasons expressed in the body of the report, we do not consider this a definitive finding, but it has led us to make an assumption in our impact analysis that Wal-Mart pays the market wage that fairly reflects the skills, experience, and education it requires in its workers.
- **Wal-Mart is more capital intensive.** We found evidence that Wal-Mart is more capital intensive than its competitors. Therefore, we apportioned some of the cost savings as having come from Wal-Mart's investment in capital related to increasing their distribution and inventory control efficiencies.

³ Hausman, Jerry & Leibtag, Ephraim. "CPI Bias from Supercenters: Does the BLS know that Wal-mart exists?" NBER Working Paper Series Aug 2004:2.

- **Wal-Mart has contributed modestly to lower import prices.** While we did not have sufficient data to make a definitive conclusion in this regard, we have assumed that some of the cost savings have come about through lower import prices. For this analysis, we assumed that Wal-Mart is able to purchase imported goods for 5% less than traditional retailers due to its high volume and distribution efficiencies.
- **Wal-Mart's innovations in distribution and inventory control efficiencies have generated an increase in the economy's total factor productivity.** Accounting for the above three forces does not allow us to fully explain the cost savings we have observed. Therefore, the only way that these cost savings could have been generated is through a Wal-Mart induced increase in the economy's total factor productivity (TFP) of about 0.75%. In simple terms, TFP is a measure of technical progress, or could also be considered a measure of the general efficiency of the economy. It addresses improvements in output not explained by additional inputs of capital or labor. Typically, this arises from deploying technology or process improvements to more efficiently make use of the specific mix of capital and labor deployed.

Through its productivity gains, Wal-Mart has also impacted the national labor market. Demand for labor is keyed to the level of output in the economy, the real wage, and the productivity of factors of production. Higher output levels in the economy with Wal-Mart drive up demand for labor while higher productivity levels mute the employment gains. By incorporating the above findings into the Global Insight Model of the U.S. Economy we estimate that the existence of Wal-Mart has led to there being some 210,000 more jobs by 2004 that would otherwise not have existed. This corresponds to a 0.15% increase in jobs, significantly less than the 0.9% gain in the economy's output. The unemployment rate is estimated to have been 0.14 percentage point lower by 2004 due to Wal-Mart.

These 210,000 additional jobs are a plus, but what is Wal-Mart's effect on the rest of the labor force? Are they better off? As noted above, lower inflation levels in the economy with Wal-Mart put downward pressure on nominal wages, while higher labor demand and productivity levels put upward pressure on wages. Rather than declining in line with the 3.1% decrease in consumer prices, wage rates are only 2.2% lower overall. This implies that **real wages were 0.9% higher by 2004** than they would have been in an economy without Wal-Mart. The nominally lower income levels were more than offset by lower price levels, leading to a rise in real disposable income. Consumers earned less in nominal dollars, but their income bought them more in the economy with Wal-Mart.

Wage Sensitivity Analysis

To acknowledge those who argue that Wal-Mart has led to real wage compression in the U.S. economy, Global Insight conducted an analysis to determine how sensitive our results were to our assumption that there has been no real wage compression. In this analysis we assumed that the lower prices we attributed to Wal-Mart are due to lower

wages rather than to higher productivity. Hence we decreased the national average wage rate by an additional 1% (implying a 25% decline in nominal general merchandise and grocery store wage rates), which completely removes the increase we introduced to total factor productivity. With lower productivity levels, employment rises by 870,000 jobs. The higher employment levels raise real disposable income 1.7% in spite of lower nominal wages.

MSA Impact

The purpose of the analysis at the MSA level is to determine "How different would the economy of Dallas-Fort Worth-Arlington MSA have been in 2004 if Wal-Mart had not existed?" To answer this question, Global Insight focused primarily on estimating the differences in the levels of economic activity in the Dallas-Fort Worth-Arlington MSA between the Baseline Scenario, which includes Wal-Mart, and the alternative No Wal-Mart Scenario. The divergence that exists in 2004 is due to the cumulative effects of Wal-Mart's increasing presence in the MSA since the first Dallas-Fort Worth-Arlington-area Wal-Mart store was established in 1978.

The main impact of Wal-Mart's presence in the Dallas-Fort Worth-Arlington MSA is a price level by 2004 that is 4% lower because of Wal-Mart. This driver influences the rest of the local economy. Through direct, indirect and induced effects, Wal-Mart's presence has resulted in real disposable income gains of 2.6% by 2004 and has added 6,300 jobs to the Dallas-Fort Worth area that otherwise would not have been there.

County Impact

While Wal-Mart is a national retail chain, a majority of the current debate concerning Wal-Mart's impact occurs at the local level. Citizens, lawmakers, and businesses in counties and municipalities are concerned about the hypothesized harmful effects that a potential Wal-Mart entrant could have on the local economy. The county-level analysis strives to determine the impact of the opening and further expansion of a typical Wal-Mart store in a given county. An econometric analysis was performed using economic and Wal-Mart square-footage data for 3,101 counties for the period 1985 to 1997. The goal of the analysis was to isolate the effect of the Wal-Mart square-footage variable and translate it into an impact on retail employment at the county level.

The model looked at Wal-Mart's impact in the context of a 100,000-square-foot Wal-Mart being placed in an average county of the dataset in the year in 1985. Over the period 1985 to 1997, the impact is as follows: in the first three years, with the opening of a typical 150-350 person store in a county, there is a gain of 137 retail employment jobs in the county; in the subsequent years, as competitors adjust, there is a loss of 40 retail jobs. The net impact of the entry of the Wal-Mart store is 97 jobs. It also leads to net job declines in food stores and apparel & accessory stores, but net job increases in building materials & garden supplies stores and general merchandise stores (which is where Wal-Mart is classified). This indicates that Wal-Mart does displace other retail establishments, but also serves to stimulate the overall development of the retail sector in a county. Wal-Mart has an overall positive impact (in terms of retail employment) for

the counties in which it has expanded. As this analysis summarizes the impact for an "average" county, the actual results would vary from county to county, depending on factors such as industry mix within the county and number of competitors.